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C O N F I D E N T I A L SECTION 01 OF 03 CANBERRA 000903

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SUBJECT: AUSTRALIA-NZ-ASEAN FTA: ANNOUNCED, BUT AUTOS STILL
TO BE RESOLVE

REF: CANBERRA 100

Classified By: CLASSIFIED BY ECON COUNSELOR EDGARD KAGAN, REASONS 1.4 (B, D)

11. (C) Summary: Ministers announced the ASEAN-Australia-New Zealand Free Trade Agreement on August 28, slated to be signed in December. However, Australia is still negotiating on autos and auto parts with Malaysia and Indonesia. The Australians see this as a quality FTA, with each country committing to zero tariffs on items comprising over 90% of its trade. ASEAN countries collectively are Australias largest trade partner. Australia will contribute to a work program as part of the FTA package. Politically, it is a new link between Australia and its Southeast Asian neighbors, demonstrates the Rudd Government,s commitment to multilateral trade liberalization, and should improve access for Australian businesses. End Summary.

12. (SBU) Australia Trade Minister Simon Crean announced August 28 in Singapore that Australia had concluded negotiations with New Zealand and the countries of ASEAN on a region-wide ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). The terms of the agreement have not yet been made public - and despite Crean's characterization of negotiations as "concluded," there are in fact some issues to handle before the agreement can be signed, expected to be December. The joint press release referred to market access issues to be resolved among some members. Specifically, the outstanding issue is between Australia and Malaysia and Australia and Indonesia on automobiles and parts.

DEAL ANNOUNCED BUT...

13. (C) Mike Mugliston, Head of the Asia Trade Task Force at the Department of Foreign Affairs and Trade, briefed econoff on the status of talks on September 12, confirming press reports that the final issues to resolve are autos and auto parts. There is a final agreement, Mugliston said, and all 12 participants are clear that there will be "no backsliding" from what was agreed to in Singapore in August - but there is room to improve commitments. Mugliston said that the decision to "conclude" negotiations while leaving room for more talks on autos was because several ASEAN members and New Zealand wanted to be able to announce agreement in August - New Zealand in particular because of its upcoming elections. Despite the agreement only New Zealand has submitted a final schedule of tariff commitments. Services negotiations have been concluded.

THE FINAL HURDLE - AUTOS

14. (C/NF) Mugliston said the goal was to conclude auto talks with Indonesia and Malaysia by the end of September, to allow time for drafting final language, Cabinet approval, and signature in December. He said they were making some progress on cars and parts with Indonesia. Indonesia wanted more commitments from Australia on textiles, which Mugliston said might be forthcoming as part of a deal on autos. Talks with Malaysia, however, have gone nowhere. Mugliston said that he had been pleased with how negotiations went with the Philippines on cars and parts. He said that the Philippines had actually approached Tokyo to see whether Japan would be upset if they offered better access to Australian car and parts manufacturers than Japan has in its FTA with the Philippines; the GOJ apparently confirmed this would not be a problem and Australia and the Philippines have reached agreement. Mugliston hopes Indonesia will do the same. Mugliston said that, although the Thai-Australia FTA (TAFTA) would not be superceded by the AANZFTA, as tariff commitments and rules of origin provisions of the AANZFTA come into play, auto exporters will have the choice of which FTA to export under, and would naturally move to the less-restrictive AANZFTA to export to Thailand.

15. (C) When asked whether failure to get concessions on autos from Malaysia would be a deal-breaker, Mugliston said it was up to the Government to decide. He implied though that he thought the Rudd Government would probably approve the deal, given the gains in other sectors and the progress on autos with Indonesia, the Philippines, and Thailand. The primary focus in the AANZFTA for Australia has been to reduce

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tariffs, leaving non-tariff trade barriers for later. Mugliston said that the GOA was disappointed that it could get nothing on government procurement; again, Malaysia was the big obstacle. Understanding that procurement would be very difficult (no agreement even among the ASEAN members on this, Mugliston noted), the GOA made the tactical call to drop procurement and pursue a deal on automobiles.

16. (SBU) This is an important issue for Australia, where automobiles have been in the news lately, given the closure of Mitsubishi's plant in Adelaide (ref A), job cuts by both Ford and Holden (General Motors), pressure to delay Australia's scheduled reduction of tariffs on autos in 2009 from 10% to 5%, and a high-profile GOA-commissioned review on Australia's auto sector. Tariffs on Australian-made autos in Indonesia, Malaysia and the Philippines range from 30% to 80%, and from 15% to 30% on components. The small Australian auto sector wants to be able to link into regional supply chains, both as sources of components and to export them. That in Mugliston's view is the real commercial benefit for of the AANZFTA for Australia's automotive sector.

GOOD DEAL WITH MAJOR TRADE PARTNERS

17. (U) AANZFTA will be important for Australia; ASEAN and New Zealand are big trading partners. Taken collectively, according to Department of Foreign Affairs and Trade (DFAT) statistics, the ten ASEAN countries accounted for A\$71 billion (currently A\$=US\$.80), 16% of Australia's total trade in 2007, which makes it a larger trade partner than China (13%), Japan (12%) or the US (11%). ASEAN members in 2007 accepted 11% of Australia's goods exports (A\$18 billion) and 15% of services (A\$7 billion). Trade between ASEAN and Australia has been growing at an average of 10% per year since 1997. New Zealand is also a major trading partner - in 2007 two-way Australian-New Zealand trade was A\$16 billion, or 8.8% of Australia's total trade, making New Zealand the fifth-largest trading partner. However, Australia and New Zealand already enjoy a very close and open trade and investment relationship; AANZFTA will do relatively little to liberalize trans-Tasman trade.

¶18. (SBU) Mugliston expanded on this. Indonesia, he said, would have zero tariffs on 93% of line items; Malaysia goes to zero on 96%, Philippines on 94%, and the others on at least 96%. Overall, Mugliston said, this would cover at least 90% of trade for each signatory.

¶19. (U) In a data sheet on the AANZFTA, DFAT noted that this is the most comprehensive FTA that ASEAN has agreed to. It includes provisions covering trade in goods and services, intellectual property, competition policy, and economic cooperation. It specifically provides for the reduction or elimination of tariffs over time, and for scheduling market access commitments for services for each country. Australia and New Zealand will usually have the shortest period to implement commitments; the least developed ASEAN members (Burma, Cambodia, and Laos) will have the most time.

ECONOMIC COOPERATION COMPONENT

¶10. (C) Announced along with the AANZFTA was a A\$20-25 million work program over five years to help some ASEAN members to implement their obligations. Mugliston specified that this would be in the form of a separate MOU, signed at the same time as the FTA. He expected Australia would have Qthe same time as the FTA. He expected Australia would have to commit most of the money for the program (which would be in addition to existing GOA assistance to ASEAN), although he expected Singapore to kick in as well. He said some of the projects being considered included ones on intellectual property, on setting up and funding a unit within the ASEAN secretariat to implement the FTA, and on developing rules of origin. Mugliston said the GOA was reluctant to agree to this, but the ASEANS made it clear early on that without an economic cooperation component, there would be no AANZFTA. And, Mugliston added, Indonesia was now pressing the GOA for a separate bilateral program.

¶11. (C) Comment: This is a significant deal for Australia. Politically, it brings them closer to their Southeast Asian neighbors. Economically, although imperfect it should increase opportunities for Australian business in the

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570-million-people strong ASEAN market. It will mark an accomplishment for the Rudd Government and Trade Minister Crean (Crean chief of staff David Garner said Crean saw this as a good deal), and reinforces their election campaign argument that multilateral trade agreements are their preferred path to trade liberalization.

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